



India's Economy Challenges

This editorial is based on [India needs a new economic policy](#) which was published in The Hindu on 12/08/2023. It talks about the challenges of the Indian economy.

For Prelims: [GDP](#), [Inflation](#), [Unemployment](#), [Covid-19 pandemic](#), [World Bank](#), [Current Account Deficit](#), [International Monetary Fund](#), [Disinvestment](#), [Production-linked Incentive \(PLI\) Scheme](#), [Intellectual Property Rights](#).

For Mains: Challenges of Indian Economy

India is a **large and complex economy** that faces many challenges and opportunities in its quest for growth and development. The country has undertaken various reforms to address its challenges and leverage its opportunities. India is one of the **fastest-growing economies in the world**, with a population of over **1.3 billion** and a **GDP of over \$2.7 trillion**. However, the country also faces many economic challenges and has undertaken various reforms to address them. India has the potential to become a global leader in the 21st century if it can overcome its economic challenges and sustain its economic reforms.

What are the Economic Challenges in India?

▪ Weak Demand:

- The demand for goods and services in India has been **stagnant or declining due to various factors**, such as **low income growth**, **high inflation**, **unemployment**, and the impact of the **Covid-19 pandemic**.
- This has **affected the consumption and investment levels** in the economy, and **reduced the tax revenue for the government**.

▪ Unemployment:

- Despite rapid economic growth, unemployment remains a serious issue in both rural and urban areas.
- The Covid-19 pandemic has worsened the situation, **as many businesses have shut down or reduced their operations**, leading to job losses.
- According to the **Centre for Monitoring Indian Economy (CMIE)**, over **1.8 crore salaried jobs were lost between April and July 2020**.
 - The **unemployment rate was 7.4% in August 2020**, compared to 5.4% in August 2019.
 - According to the **National Statistical Office's (NSO) Periodic Labour Force Survey (PLFS) report** for the year **2021-22**, the unemployment rate for **2021-22 was 4.1%**.

▪ Poor Infrastructure:

- India lacks adequate infrastructure, such as roads, railways, ports, power, water, and sanitation, which hampers its economic development and competitiveness.

- According to the [World Bank](#), India's **infrastructure gap is estimated to be around \$1.5 trillion**. Poor infrastructure also affects the quality of life and health of the people, especially in rural areas.
- **Balance of Payments Deterioration:**
 - India has been running a **persistent [current account deficit](#)**, which means that its imports exceed its exports.
 - This reflects its dependence on foreign goods and services, especially oil and gold, and its low export competitiveness.
 - India's **exports and imports decreased by 6.59% and 3.63%**, respectively, in 2022.
- **High Levels of Private Debt:**
 - India has witnessed a **surge in private debt**, especially in the corporate and household sectors, due to easy credit availability and low interest rates.
 - However, this **also poses a risk of default and financial instability**, especially if the income growth slows down or interest rates rise.
 - According to the [Reserve Bank of India \(RBI\)](#), the total non-financial sector debt was 167% of GDP in March 2020, up from 151% in March 2016.
- **Inequality:**
 - India has a high level of income and wealth inequality, which has increased over time.
 - According to the **World Inequality Database**, the top 10% of income earners accounted for 56% of national income in 2019, up from 37% in 1980.
 - Similarly, the **top 10% of wealth holders owned 77% of total wealth in 2019**, up from 66% in 2000.
 - High inequality can lead to social unrest, political instability, and lower economic growth.

What Economic Reforms are Taken in India?

- **Liberalization:**
 - India started its **process of liberalization in 1991**, when it faced a **balance of payments crisis** and had to seek [International Monetary Fund \(IMF\)](#) assistance.
 - The reforms aimed at reducing government intervention and regulation in various sectors of the economy, such as industry, trade, finance, and foreign investment.
 - The reforms also involved **dismantling the license-permit-quota system**, which restricted entry and expansion of private firms.
 - Liberalization has **helped India achieve higher growth rates and integrate** with the global economy.
- **Privatization:**
 - India has also pursued privatization of public sector enterprises (PSEs), which are owned or controlled by the government.
 - The objectives of privatization are to **improve efficiency, profitability, and competitiveness of PSEs; reduce fiscal burden; and generate resources for development**.
 - Privatization can take various forms, such as [disinvestment](#) (selling shares to private investors), strategic sale (transferring management control to private buyers), or closure (shutting down loss-making units).
 - Since 1991, India has privatized over 60 PSEs, **raising over Rs 3 lakh crore**.
- **Globalization:**
 - India has also embraced globalization, which means increasing its openness and integration with the world economy.
 - Globalization involves increasing trade flows (exports and imports), capital flows (foreign direct investment and portfolio investment), technology transfers (patents and licenses), and migration flows (workers and students).
 - Globalization can bring benefits such as access to new markets, cheaper inputs, foreign exchange, technology, and skills. However, it can also pose challenges such as competition, volatility, dependence, and inequality.
- **New Economic Policy:**
 - India announced a [new economic policy in 2020](#), in response to the Covid-19 pandemic and its impact on the economy.

- The policy consists of a **stimulus package of Rs 20 lakh crore**, equivalent to **10% of GDP**, to support various sectors and segments of the economy.
- The policy also includes a series of reforms in areas such as agriculture, labor, education, health, defence, mining, power, and taxation.
 - The policy aims to make India self-reliant (Atmanirbhar) and resilient in the post-Covid world.
- **Insolvency and Bankruptcy Code (IBC):**
 - It provides a time-bound and market-based mechanism for resolving insolvency and bankruptcy cases of corporate debtors, financial creditors, and operational creditors.
 - It aims to maximize the value of assets, promote entrepreneurship, and improve the ease of doing business.
 - According to a report by the **Insolvency and Bankruptcy Board of India** (IBBI), as of 2021, **4,541 corporate insolvency resolution processes** have been initiated under the IBC, **out of which 2,029 have been closed by resolution, liquidation, or withdrawal**.
- **Labour Codes:**
 - These are **four codes that aim to consolidate and simplify central labor laws into four broad categories: wages, industrial relations, social security, and occupational safety and health**.
 - The codes **seek to provide flexibility to employers in hiring and firing workers, streamline the process of registration** and compliance for businesses, extend social security benefits to informal workers, and enhance the role of trade unions and collective bargaining.
- **Production-linked Incentive (PLI) Scheme:**
 - India launched a PLI scheme in 2020, to boost manufacturing and exports in key sectors, such as automobiles, electronics, pharmaceuticals, textiles, and renewable energy.
 - The scheme offers financial incentives to eligible manufacturers based on their incremental sales and investment over a period of five years.
 - The scheme has a **total outlay of Rs 1.46 lakh crore**, and is expected to create jobs, attract foreign investment, enhance competitiveness, and reduce import dependence.

What are Some Suggestions to Overcome the Economic Challenges?

- **Boosting Consumption and Investment Demand:**
 - The government should **provide direct fiscal stimulus to the sectors and segments of the economy** that have been hit hard by the pandemic, such as MSMEs, informal workers, rural households, and low-income groups.
 - The stimulus should **aim at increasing their income, purchasing power, and access to credit**.
 - The government should also invest in public infrastructure, health, education, and social protection, which can **create jobs, improve productivity, and enhance human capital**.
- **Enhancing Export Competitiveness:**
 - The government should promote export-oriented sectors, such as manufacturing, services, and agriculture, by **providing incentives, subsidies, tax breaks, and infrastructure support**.
 - The government should also pursue trade agreements with strategic partners, such as the US, the EU, Japan, and **ASEAN**, to access new markets and diversify its export basket.
 - The government should also address the issues of **quality standards, logistics costs, and trade facilitation** that hamper India's export performance.
- **Reforming the Financial Sector:**
 - The government should strengthen the financial sector by resolving the problem of **non-performing assets (NPAs), recapitalizing public sector banks, improving governance and regulation, and encouraging financial inclusion and innovation**.
 - The government should also develop the **bond market, the insurance market, and the pension market**, which can provide long-term finance for infrastructure and social security for the elderly.
- **Improving the Business Environment:**

- The government should simplify the regulatory **framework for doing business in India by reducing red tape, corruption, and policy uncertainty.**
 - The government should also implement the reforms in labour laws, land acquisition laws, contract enforcement laws, and bankruptcy laws that can improve the flexibility and efficiency of the labour market, the land market, the credit market, and the legal system.
- **Fostering Innovation and Entrepreneurship:**
 - The government should foster a culture of innovation and entrepreneurship in India by supporting **research and development, science and technology, startups, and incubators.**
 - The government should also facilitate collaboration between academia, industry, and government to create an ecosystem that can generate new ideas, products, processes, and solutions.
 - The government should also **protect intellectual property rights** and incentivize patenting and licensing.
- **Addressing Inequality and Poverty:**
 - The government should address **inequality and poverty in India by implementing progressive taxation policies that can redistribute income and wealth from the rich to the poor.**
 - The government should also **expand the coverage and quality of social welfare schemes that can provide basic income support, food security, health insurance, education scholarships, housing subsidies,** and skill development to the poor and vulnerable sections of society.
 - The government should also **empower women, minorities, dalits, tribals, and other marginalized groups** by ensuring their equal rights, opportunities, and participation in economic activities.
- **Mitigating Climate Change and Environmental Degradation:**
 - The government should mitigate climate change and environmental degradation in India by adopting green policies that can reduce **greenhouse gas emissions (GHGs), promote renewable energy sources, enhance energy efficiency, conserve natural resources,** protect biodiversity, and improve waste management.
 - The government should also implement adaptation measures that can increase resilience to climate shocks such as floods, droughts, cyclones, heat waves etc.

Drishhti Mains Question:

Examine existing economic challenges, the opportunities presented by economic reforms, and the trade-offs and risks associated with their implementation.

UPSC Civil Services Examination Previous Year's Question (PYQs)

Prelims:

Q: Consider the following statements: (2018)

1. Human capital formation as a concept is better explained in terms of a process which enables
2. individuals of a country to accumulate more capital.
3. increasing the knowledge, skill levels and capacities of the people of the country.
4. accumulation of tangible wealth.
5. accumulation of intangible wealth

Which of the statements given above is/are correct?

- (a) 1 and 2
- (b) 2 only
- (c) 2 and 4

(d) 1, 3 and 4

Ans: (c)

Mains:

Q: How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased in formalization detrimental to the development of the country? **(2016)**

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